

*State of South Carolina*



*Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
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September 16, 2015

Mr. Doug Ruth, Director of Reimbursement  
Life Care Centers of America  
3570 Keith Street, NW  
Post Office Box 3480  
Cleveland, Tennessee 37320

Re: AC# 3-LHH-J2 – Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head

Dear Mr. Ruth:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2011 through September 30, 2012. That report was used to set the rate covering the contract period beginning October 1, 2013.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/sag

cc: Mr. Byron Roberts  
Mr. Jeff Saxon  
Ms. Melissa Simmons  
Ms. Nicole Mitchell Threat  
Ms. Brittany Sandifer  
Ms. Chari Preacher

**LIFE CARE CENTER OF AMERICA, INC. D/B/A  
LIFE CARE CENTER OF HILTON HEAD**

**HILTON HEAD ISLAND, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2013  
AC# 3-LHH-J2**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 9, 2015

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, for the contract period beginning October 1, 2013, and for the twelve month cost report period ended September 30, 2012, as set forth in the accompanying schedules. The management of Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head dated as of October 1, 2011, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
July 9, 2015

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**LIFE CARE CENTER OF HILTON HEAD**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2013  
AC# 3-LHH-J2

10/01/13-  
09/30/14

Interim Reimbursement Rate (1)	\$156.32
Adjusted Reimbursement Rate	<u>154.37</u>
Decrease in Reimbursement Rate	\$ <u><u>1.95</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 12, 2015.

**LIFE CARE CENTER OF HILTON HEAD**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 2013 Through September 30, 2014  
 AC# 3-LHH-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 82.97	\$ 75.31	
Dietary		14.60	17.41	
Laundry/Housekeeping/Maintenance		<u>14.60</u>	<u>16.17</u>	
Subtotal	\$ <u>-</u>	112.17	108.89	\$108.89
Administration & Medical Records	\$ <u>-</u>	<u>25.16</u>	<u>23.71</u>	<u>23.71</u>
Subtotal		137.33	<u>\$132.60</u>	132.60
<u>Costs Not Subject to Standards:</u>				
Utilities		4.76		4.76
Special Services		.53		.53
Medical Supplies & Oxygen		2.79		2.79
Taxes and Insurance		4.01		4.01
Legal Fees		<u>.03</u>		<u>.03</u>
<b>TOTAL</b>		<u>\$149.45</u>		144.72
Inflation Factor (3.60%)				5.21
Cost of Capital				9.09
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Budget Neutrality Adjustment (2.9241%)				<u>(4.65)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$154.37</u>

**LIFE CARE CENTER OF HILTON HEAD**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2012  
 AC# 3-LHH-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,163,678	\$110,667 (5) 7,061 (5)	\$ 10,009 (1)	\$2,271,397
Dietary	387,169	12,459 (5)	-	399,628
Laundry	64,131	2,935 (5)	-	67,066
Housekeeping	136,471	6,624 (5)	-	143,095
Maintenance	274,293	4,702 (5)	88,743 (1) 765 (3) 12 (6)	189,475
Administration & Medical Records	686,199	943 (5) 4,473 (5)	2,698 (6)	688,917
Utilities	130,214	-	-	130,214
Special Services	13,858	41,071 (5)	40,413 (6)	14,516
Medical Supplies & Oxygen	128,180	-	51,830 (6)	76,350
Taxes and Insurance	107,067	2,818 (4)	-	109,885
Legal Fees	875	-	-	875
Cost of Capital	253,785	456 (2) <u>13,561 (7)</u>	2,199 (1)	265,603
Subtotal	4,345,920	207,770	196,669	4,357,021

**LIFE CARE CENTER OF HILTON HEAD**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2012  
AC# 3-LHH-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Ancillary	186,284	-	-	186,284
Nonallowable	925,973	12,208 (1) 94,953 (6)	456 (2) 2,818 (4) 190,935 (5) 13,561 (7)	825,364
CNA Training and Testing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>\$5,458,177</u>	<u>\$314,931</u>	<u>\$404,439</u>	<u>\$5,368,669</u>
Total Patient Days	<u>27,377</u>	<u>-</u>	<u>-</u>	<u>27,377</u>
			Cost of Capital Patient Days	<u>29,209</u>
Total Beds	<u>88</u>			

**LIFE CARE CENTER OF HILTON HEAD**  
Adjustment Report  
Cost Report Period Ended September 30, 2012  
AC# 3-LHH-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$490,051	
	Nonallowable	12,208	
	Accumulated Depreciation		\$368,030
	Other Equity		33,278
	Restorative		10,009
	Maintenance		88,743
	Cost of Capital		2,199
	To adjust fixed assets and related depreciation HIM-15-1, Sections 108 and 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	456	
	Nonallowable		456
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Prepaid Expense	765	
	Maintenance		765
	To properly charge expense applicable to the subsequent period HIM-15-1, Section 2302.1		
4	Taxes and Insurance	2,818	
	Nonallowable		2,818
	To adjust liability insurance expense HIM-15-1, Sections 2162.2, 2162.7 and 2304 State Plan, Attachment 4.19D		

**LIFE CARE CENTER OF HILTON HEAD**  
Adjustment Report  
Cost Report Period Ended September 30, 2012  
AC# 3-LHH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nursing	110,667	
	Restorative	7,061	
	Dietary	12,459	
	Laundry	2,935	
	Housekeeping	6,624	
	Maintenance	4,702	
	Administration	943	
	Medical Records	4,473	
	Special Services	41,071	
	Nonallowable		190,935
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
6	Nonallowable	94,953	
	Maintenance		12
	Administration		2,698
	Medical Supplies		51,830
	Special Services		40,413
	To remove special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		
7	Cost of Capital	13,561	
	Nonallowable		13,561
	To adjust capital return		
	State Plan, Attachment 4.19D		
		\$805,747	\$805,747
	TOTAL ADJUSTMENTS		

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**LIFE CARE CENTER OF HILTON HEAD**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2012  
 AC# 3-LHH-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>3.21571</u>	<u>3.21571</u>	
Deemed Asset Value (Per Bed)	50,223	50,223	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	2,209,812	2,209,812	
Improvements Since 1981	511,939	965,353	
Accumulated Depreciation at 9/30/12	(1,077,630)	(1,521,024)	
Deemed Depreciated Value	1,644,121	1,654,141	
Market Rate of Return	<u>.0369</u>	<u>.0369</u>	
Total Annual Return	60,668	61,038	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	60,668	61,038	
Depreciation Expense	53,286	90,824	
Amortization Expense	34	35	
Capital Related Income Offsets	(141)	(141)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	113,847	151,756	\$265,603
Total Patient Days	<u>15,521</u>	<u>13,688</u>	<u>29,209</u>
Cost of Capital Per Diem	\$ <u><u>7.34</u></u>	\$ <u><u>11.09</u></u>	\$ <u><u>9.09</u></u>

**LIFE CARE CENTER OF HILTON HEAD**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 2012  
 AC# 3-LHH-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$12.10</u>	<u>\$11.09</u>
Reimbursable Cost of Capital Per Diem		\$9.09
Cost of Capital Per Diem		<u>9.09</u>
Cost of Capital Per Diem Limitation		<u>-</u>

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